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RECENT ECONOMIC DEVELOPMENTS IN THE USSR AND EASTERN EUROPE

Note by the Secretary General

The attached report has been prepared by the Economic Committee in the light of detailed discussions. Whilst it concentrates on the recent developments in economic areas of concern in the East European countries and the USSR and their inter-relation, it expands on Poland and Romania which have special economic problems. It does not take into account the CPSU Central Committee and Supreme Soviet November Meetings in the USSR, but the general tenor of these meetings tends to confirm the nature and characteristics of the problems described in this document.

2. The CPSU Central Committee and Supreme Soviet meetings which endorsed both the 11th Five Year Plan and the Plan and the Budget for the year 1982 were of particular importance. In the reports presented to these meetings and speeches made there by Secretary General Brezhnev, Gosplan chief Baybakov and Finance Minister Garbuzov, the significance attached by the Party and the Government to the food production and distribution was stressed once more. A reduction in volume of capital investment was also announced reiterating the new Soviet investment policy reflected in earlier statements with the aim of improving, and making better use of, existing production capacity rather than investing in new enterprises. Such a policy has met with little success in the past. Brezhnev was highly critical of management for failing to improve its performance. Garbuzov, in his speech relating to the 1982 Budget, said that the Defence vote would be 17.05 bn R, equal to 5.3% of the budget: thus whilst the absolute amount remains the same as for 1981, the proportion of the budget is slightly less.

3. This report will constitute a reference document for the Council Meeting of 10th-11th December, 1981.

(Signed) Joseph M.A.H. LUNS

NATO,
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This document includes 1 Annex

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C-M(81)76RECENT ECONOMIC DEVELOPMENTS IN THE USSR AND EASTERN EUROPEReport by the Economic CommitteeINTRODUCTION AND SUMMARY

Whilst Poland has continued to draw the limelight during 1981, economic developments in the USSR and Eastern European countries have been important, especially because the first year of the new Five Year Plan 1981-1985 may be looked upon as pace-setting and a period in which some re-orientation of the economies may have been initiated. This paper considers the economic developments of major significance during the year, as far as information to date will permit.

2. Overall, agriculture remains the sector of greatest economic difficulty and weakness for the area as a whole and especially for the USSR, whose feedgrain requirements can be met only by large scale imports, paid for mainly in convertible currency. These difficulties in the agricultural sector, together with a stagnation in oil prices, will this year be the main causes of a marked increase in the Soviet convertible currency trade deficit (possibly up to \$5-6 bn). In these conditions, the USSR convertible currency current account surplus is expected to fall steeply from last year's estimated level of \$2.8 bn. The Soviet energy sector in general consumes vast resources, and problems are felt especially in coal production, where attempts are being made to improve performance by large-scale (18-27%) pay increases to be effective at various dates from the beginning of 1982. However, natural gas output continues to expand above the 1981 Plan level requirements whilst in oil production the current increase of about 1% in the year is in line with the latest average annual growth foreseen in the 1981-1985 Plan.

3. In Eastern Europe development is slowing in virtually all countries, and tensions continue to be reported in numerous economic sectors. Special concern is felt in the West over the increasing hard currency debt of Romania, at \$9.2 bn at end 1980, whilst the repayment by Poland due in 1981 on a total debt of \$26-27 bn at end

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1980 has been largely rescheduled; but it is impossible to foresee an early solution to Poland's economic problems. To provide their economies with increased external financial manoeuvrability, both Poland and Hungary in November 1981 applied for membership in the International Monetary Fund.

POLAND

4. The recent tendencies observed in Poland reveal the continuing deterioration of the economic situation. The main visible elements of the present downturn continue to be the following. Industrial activity slowed down markedly due mainly to lack of basic inputs, deficiencies in the transport network, reduction of working hours, decline of individual labour productivity, strikes, and poor adaptation of the system as a whole to the multitude of difficulties which it has been facing for 14 months.

5. On the other hand, the excess demand on the consumer markets is increasing as a result of a significant growth in the income of large segments of the population concomitant with a reduction in the supply of many products, which made rationing necessary in several cases.

6. Finally, the disastrous position of the convertible currency balance of payments probably represents the gravest difficulty. In particular it rules out the possibilities of industrial recovery and real improvement in consumer-good supply through an increase in imports. Moreover, as Poland is incapable of meeting all its financial obligations on time, the country's solvability solely depends on debt rescheduling afforded by its creditors.

7. In the short term, there is little chance for the economic situation to improve, as witnessed by a 15% decrease in National Income foreseen by Polish authorities for 1981. In certain cases, food shortages will be alleviated by this year's improved harvest results. However, not all the supply difficulties - especially meat - will disappear. In the longer term, Poland's economic recovery requires the application of a coherent reform programme, introduced by steps, within realistic deadlines. In 1982 the government plans to bring about a series of measures of economic decentralisation, but these remain vague; and in the present context of economic disorder, the application of ill-prepared and/or ill-fitted reforms might be a cause of further disequilibrium.

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8. The heydays of rapid growth seem to have come to an end and - somewhat unexpectedly - the country is plunging deeper and deeper into recession. The growth rate of national income (NMP) dropped from a peak of 10.5% at the beginning of the last Five Year Plan (1976-1980) to 2.5% in 1980. Even this datum may overestimate real performance, for Romania's overall deflator is known to be kept artificially low. Oil production dropped by over one-fifth in the same period, and - partly as a result of the domestic oil crisis - the trade balance passed from a slight surplus to a record \$1.5 bn deficit in 1980. Meanwhile, cumulative deficits have generated a hard currency debt of \$9.2 bn at the end of last year, and the servicing of this debt is likely to create considerable problems for Bucharest despite new credit lines from the IMF.

9. The chronic difficulties of Romanian agriculture (translating into a negative growth of -5% in 1980), together with the need to export as much produce as possible to pay for raw materials and machines, have badly affected living standards. Pervasive shortages of many necessities such as meat, cheese, fresh fruit, bread and flour prevail. The last two commodities had to be rationed at mid-October, a measure which reflects the difficult situation and which could have serious consequences. Even allowing for widespread police control, and the traditionally passive attitude of the Romanian consumer, the country's economic troubles are deep, and could lead to more disturbances.

MAJOR AREAS OF ECONOMIC CONCERNAgriculture

10. The latest reliable Western estimate as at the end of September, of 175 mn tonnes for the 1981 Soviet grain crop indicates another disastrous harvest for the third consecutive year. Adverse weather conditions were largely to blame, but the usual problems of inadequate machinery and skilled mechanics, insufficient storage, transportation and handling facilities, and a lack of quality seed resulting from the two previously poor harvests, were particularly relevant this year.

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11. A shortfall of 66 mn tonnes below the Plan target of 236 mn tonnes will necessitate imports of 40 to 45 mn tonnes to help meet Soviet grain requirements for 1981-82 which would more or less enable them to maintain existing livestock numbers. About 125 mn tonnes of grain are required for the livestock sector and the remainder for human consumption, seed, industrial use and stocks. As the Soviet Union cannot grow coarse grains (especially maize) in sufficient quantities, imports of the latter are likely to predominate and are vital to maintain an acceptable meat supply to satisfy a population with growing money incomes and expectations. Meat production for 1981 should lie somewhere between the extremely low 1980 result of 15.1 mn tonnes and the unsatisfactory 1979 figure of 15.5 mn tonnes. Due to this poor beginning in the threshold year, meat production targets for the entire Five Year Plan period are unlikely to be reached. A Five Year Agreement worth \$1 bn was concluded with Argentina (1) for annual beef exports of 60-100,000 tonnes to improve supplies and contracts with other countries, including Finland, have been signed.

12. The major grain exporters this year will be the US, Canada, Australia and Argentina. The first three, in contrast to the USSR, have enjoyed record harvests. The August 5th meetings in Vienna extended for one year the validity of the US-USSR Grains Agreement set to expire September 30, 1981, under which the Soviets are obliged to purchase a minimum of 6 mn tonnes and may buy up to 8 mn tonnes, beyond which further consultations are necessary. During the grain talks held in Moscow September 30-October 1, 1981, the US offered for sale an additional 15 mn tonnes above the 8 mn ceiling. So far, the Soviets have acquired 7.7 mn tonnes in proportions of wheat and maize for the marketing year October 1981-September 1982 and may only take 10 mn of this offer if they are able to diversify their sources and diminish reliance on the US. In accordance with the Five Year Canada-USSR Agreement signed on May 25 1981, the Soviet Union has contracted for 6 mn tonnes of wheat for the first year commencing August 1, 1981. Argentina will supply as much as 13-14 mn tonnes of grain (mostly maize) under the provisions of its grain agreement. Australia, as well,

(1) The role of Argentina as a major exporter of beef may somehow be reduced because of the poor harvest this year.

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could offer two mn tonnes of cereals composed of wheat and barley. Imports in the magnitude of 40-45 mn tonnes could cost the USSR as much as \$6 bn but this is unlikely to present insuperable financial difficulties. With the deepening of some harbours and the installation of grain unloading equipment at major ports, Soviet ports can handle about 3.5-4 mn tonnes of grain a month, but rail transport from the docks remains a constraining factor with the result that bottlenecks may occur giving rise to backlogs in deliveries and storage.

13. In contrast to the heat and drought prevailing in the USSR, Eastern Europe was subject to torrential rains and extensive flooding in areas of the GDR, Poland and Czechoslovakia. The Polish harvest is likely to fulfil Plan expectations of 20 mn tonnes. Reduced livestock numbers have diminished import requirements from 10 to 8 mn tonnes, although financial constraints may limit this acquisition. The 1981 GDR harvest falls slightly under the 1980 result of 9.6 mn tonnes and fails to attain the Plan target of 10 mn tonnes: grain imports of some 3 mn tonnes are largely destined for livestock herds. The grain harvest in Czechoslovakia fell 1.6 mn tonnes below the Plan goal of 11 mn tonnes, necessitating an extra 500,000 tonnes of imported cereals in addition to the 1.5 mn tonnes foreseen as necessary to satisfy requirements. A harvest of 13 mn tonnes in Hungary lies just under the Plan figure of 13.7 mn and although the country will satisfy its domestic needs, it will have to curtail exports because of commitments to Poland. Widespread drought greatly affected Bulgaria's crop which, estimated at 7.7 mn tonnes, will fail altogether to reach the overly high target of 10 mn tonnes. A 20 mn tonne crop has been announced for Romania which, although below the unrealistic 1981 Plan target of 23.4 mn tonnes, is better in relation to previous harvests.

Energy

14. Three-fourths of the way through 1981, it appeared that the USSR would produce only a little more oil and electricity (from all sources) than in 1980, 2 per cent less coal (following declines in output in 1978 and 1979) and some 7 per cent more natural gas. In doing so, it would come close to fulfilling its plans for production of oil, and possibly exceeding them for gas; on the other hand, it appeared that the USSR would fall some 3 per cent short of achieving its goal for electricity output and 5 per cent below plan for the coal industry,

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which is hindered by the declining workability of established fields and by difficulties in rapidly developing less accessible deposits in Siberia and elsewhere. Soviet concern regarding coal production is reflected in a decree of 13 September 1981 aimed at manpower retention providing for pay rises in the coal industry varying from 18% to 27% planned for early 1982 to 1983 according to area and beginning with the Donetz basin - the one subject to most rapid depletion. Two further resolutions on the increased development of open cast mining and the mechanisation of the coal industry were published on 4th October.

15. Projected oil output in 1981 puts the USSR on the way to meeting plans for a small annual increase of about 1% each year through 1985 and although anticipated production difficulties may slow down even this modest rate of expansion, Soviet gas production appears to be living up to the ambitious performance expected of it, which requires a 38-47% rate of growth over the 1981-85 period. Because of increasing domestic and East European demand and the slowdown in oil output, Soviet exports of oil and products to the West are likely to continue to decline from their 1980 level of an estimated 55 mn tonnes (for earnings of some \$14 bn), while increasing quantities of gas will be available for sale.

16. In Eastern Europe, Polish coal production continues its tailspin: output for 1981 is expected to be no better than 162 mn tonnes, as opposed to 193 mn tonnes in 1980, because of continuing labour difficulties. As a result, Poland's coal exports are anticipated to dwindle to around 15 mn tonnes, 25% below the 1980 coal export level. Partly as a consequence, the GDR in 1981 is expected to expand by some 4 % its output of lignite, important both as an energy source and as feedstock for the country's carbon-chemical industry. Romania, on the other hand, continues to expand its domestic natural gas flow slightly; but its oil output, vital to an extensive petrochemical industry, continues to decline.

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17. The geography of East European countries requires close cooperation in transport. Since the landlocked nations are dependent on coastal states for their foreign trade and for their trade with certain parts of the USSR, most of the intra-CMEA trade is carried by conventional modes of transport, namely by railroads and ships.

18. East European reliance on Soviet supplies of energy, on the other hand, has necessitated the development of specialised transport, such as electrical transmission lines and gas and oil pipelines. In the period between 1976-80 a total of 350 mn tonnes of oil, 90 bn m³ of natural gas and 67 bn kilowatt-hours of electricity was delivered to Eastern Europe by the Soviet Union and the plans for 1981-85 foresee an overall increase. The new energy projects to be developed in the Soviet Union require further extension of specialised transport. In addition to the existing Druzhba (2) (Friendship) oil pipeline and Bratstvo (Brotherhood) gas pipeline, a gas pipeline between Orenburg and the Western border of USSR is under construction. However, the most recent development has been the agreements signed between some West European firms (3) to supply equipment for the projected Yamburg gas pipeline from the Urengoy field in Siberia to Western Europe which could increase the Soviet gas supply to Western Europe by some 40 bn m³ beginning about 1986-87 at the earliest. The line, when completed, will bring an extra 10 bn m³ to Eastern Europe.

(2) Total length 5,507 kms of which 3,688 kms is in the Soviet Union, 1,001 kms in Czechoslovakia, 656 kms in Poland, 130 kms in Hungary and 32 kms in the GDR.

(3) Federal German-French-Italian Consortium Mannesmann Anlagbau-Creusot-Loire and Nuovo Pignone (ENI-Italy). Subcontractors include AEG Telefunken (Fed. German) and John Brown (British).

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Consumer Welfare (4)

19. In general the consumer's prospects continue to be dim in the whole region, with acute problems in Poland where shortages dominate daily life and a yawning gap exists between supply and demand as a result of wage increases reaching ten times the increase in consumer goods availability (20% vs 2%); despite the efforts to soak up the excess purchasing power through higher interest rates on saving accounts and advanced payment for durables, excess liquidity continues to exist and translates into macro and micro disequilibria. The full list of goods in short supply is long, but meat, butter and grain products, other than bread, are rationed. In Romania the situation is little better and it is the consumer who appears to be bearing much of the burden of the current economic slowdown: shortages of many items prevail and long lines typically form for such items as meat, coffee, cheese and fresh fruit, flour and bread. Little improvement is to be expected as agricultural produce is to be exported in order to meet increasing foreign payments. In the other countries of Eastern Europe, although the production of many necessities falls short of plans and welfare increases at a much reduced pace, consumer difficulties are not likely to reach dramatic dimensions.

20. Real incomes, like national income, have continued their slower growth trends of recent years in the USSR and most East European countries. In 1980, real income per capita rose within the range 0.5% in Poland to 3.5% in the Soviet Union. Hungary was the only bloc country where real incomes fell for the second year running: the decreases were 1.3% in 1979 and 2.6% in 1980.

21. Inflation. The poor results of 1980 when real national income increased by 1.1% in Eastern Europe and by 3% in the Soviet bloc as a whole, were paralleled by a setback in consumer welfare and increased inflation. The official consumer-goods prices rose between 1.3% in the Soviet Union and 10% in Poland. If the latter rate is explained in terms of the general disarray of that economy, inflation in other bloc countries is the result of both cost push and demand pull in the form of an increasing gap between the rate of growth of money wages and that of consumer goods supply. After

(4) The data presented in the paragraphs concerning living standards are official. Such statistics do not discount inflation accurately and therefore the growth rates cannot be taken at face value.

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Poland, Hungary proved to be the country most vulnerable to inflationary pressures possibly because nearly half of its total commodity turnover is realised at more or less free prices: the continuation of a 9% inflation rate in 1980 (8.9% in 1979) is thus no surprise.

22. Market supply and retail prices. Housing construction continues to lag behind schedule in the whole area and consumer durables appear to be in short supply everywhere. On the other hand, in all countries except Poland and Romania necessities appear to be generally available, although at increasing prices (except for bread). Major price rises were introduced in the USSR where gasoline prices were doubled for the second time in less than 4 years (to 40 kopeks a litre). Alcohol and tobacco prices increased by 17-27% and jewellery, china, carpets, furs, leather clothes and quality furniture by 25-30%. Retail prospects are unlikely to improve significantly in the Soviet Union especially in view of the poor agricultural performance described earlier.

Convertible currency balance of payments

23. In 1980, the convertible currency trade balance of the USSR recorded a deficit which was 25% higher than in the previous year (\$2.5 bn as against \$2 bn) as a result of increased imports (mainly of agricultural produce) from the Third World; on the other hand, trade with the Western industrialized countries was in balance thanks to a further increase in the value of hydrocarbon sales, which was in fact attributable to the higher prices. Exports of arms, gold and services enabled the USSR to run a substantial current account surplus (\$2.8 bn) but this figure was lower than the all time record in 1979 (\$5.3 bn). The pattern in 1981 will probably show a marked decrease in the balance of payments surplus on current account as a result of a large increase in the convertible currency trade deficit; this is mainly because price fluctuations will be far less beneficial to Soviet exports than in 1980, while imports will probably rise significantly because of difficulties in the agricultural sector. The \$5.5 bn drop in Soviet holdings in Western banks during the first half of the year is an indication of increased financing requirements. However the strains arising from the convertible currency debt burden (between \$9 and 10 bn in net terms at end-1980) present no difficulties for the Soviet economy and Moscow should have no trouble in resorting more extensively to Western financial facilities than in 1979 and 1980 should the need arise.

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24. The 1980 trend in the East European countries' convertible currency transactions were characterized by a continued substantial improvement in Bulgaria's current payments situation, the restoration of a surplus by Hungary and an apparent reduction in the deficits of the GDR and Czechoslovakia. On the other hand, Romania's deficit (\$2.4 bn) greatly increased and Poland's (\$2.8 bn) hardly changed from 1979. (5) The efforts by the countries of the area to achieve a current account balance may now be hampered by the likely continuation of the deterioration in the terms of trade with the USSR, increasing dependence of their industries on semi-manufactures and raw materials from the West and the Third World and the channelling of resources into payments of interest on the debt.

25. The burden arising from repayment of the convertible currency debt appears to remain within manageable limits for Bulgaria, Czechoslovakia, Hungary and, for the time being, the GDR. But the recent trend in Romania's financial situation (with a net debt burden of \$9.2 bn at end-1980) is causing some alarm, particularly because of the rapid rise in the debt servicing ratio, the high proportion of short-term debts and the low level of reserves.

26. Poland has almost reached the point where it can no longer keep up repayments; inability to cover debts falling due during 1981 led the authorities to negotiate a consolidation of the country's debts (\$26 to 27 bn net at end-1980). These negotiations resulted in the rescheduling of most repayments (principal and interest) of officially-backed Western credits falling due this year and agreement on the rescheduling of principal for a large portion of the 1981 non-officially backed bank credits has almost been reached. However, such arrangements will not take care of all Poland's financing requirements for 1981 and, in the absence so far of the slightest sign of an economic recovery, similar difficulties will soon arise with the 1982 repayments. Although it is difficult to estimate, financial assistance to Poland from its COMECON partners would appear to fall far short of the country's substantial requirements.

(5) The rise of the deficit for invisibles almost offset the reduction in the deficit for merchandise trade, which went from \$1.7 bn in 1979 to \$0.8 bn in 1980. This decrease in the trade deficit for 1980 was attributable to a sustained (+24%) growth in exports (in some cases at the expense of domestic demand) and to a moderate increment (+7%) in imports.

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27. The 35th session of the CMEA Council which was held in Sofia (2nd-4th July 1981) marked the first year of the 1981-85 Five Year Plans for the Soviet Union and East European countries but was a routine session. As in the previous session, the main preoccupation of the East European members of the CMEA was to secure raw materials and energy from the Soviet Union.

28. The Soviet Prime Minister, Mr Tikhonov, reiterating the Soviet position after mentioning that in 1980 the CMEA countries as a whole were able to satisfy the bulk of their import requirements by means of reciprocal deliveries (6), repeated the pledge to provide the CMEA countries with fuel and raw materials. However, he added, again reiterating the Soviet position in the previous Council session, "a further increase in production and deliveries of fuel and raw materials resources at the former pace is becoming economically impossible". Energy exports were to rise by 20% in standard fuel equivalent over the previous five years. This pledge was far from reassuring to those countries which depend to a great extent upon Soviet energy and raw materials and which had been obliged to import raw materials and energy from non-communist countries as they were not available to them within CMEA. Romania attempted unsuccessfully to secure further energy deliveries from the USSR.

29. The adverse effects of the situation in Poland on the other CMEA economies were admitted by the participants at the Council meeting, but no further comment other than that "the socio-economic situation in Poland (7) is affecting Polish deliveries to the community" was made. The aid to Poland was left to the initiative of individual countries. The effects of the situation on cooperation and specialisation agreements between Poland and other CMEA countries was not given

(6) 68-70% of machinery, equipment, crude oil and iron ore, 94-95% of coal and sawn timber, 60% of consumer goods.

(7) See tables at annex for intra-CMEA trade and Poland's trade with East European CMEA countries.

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due consideration, despite the existence of 22 bilateral and 55 multilateral agreements between Poland and USSR, 94 bilateral and 48 multilateral agreements between GDR and Poland, and finally 45 bilateral and 61 multilateral agreements between Czechoslovakia and Poland on production of different commodities ranging from medical equipment to electron tubes, most of which require a significant Polish contribution (among them projects like the Khmeltnitsky nuclear power plant (USSR)). The disruption in the Polish industries must have affected at least the timely realisation of such important projects.

30. The one innovation expressed at the 35th Session was that more of the projects under the "Long term targeted cooperation programmes" (121 projects) are to be located in other CMEA countries, especially Bulgaria, Romania and Poland, in comparison with the 1976-80 period when most of the projects were built on Soviet territory. There is a nearly two-fold increase in the value of jointly built projects which amounted to 10 bn transferable roubles in the 1976-80 period.

Military expenditure

31. Defence spending in the USSR continues to grow at a rate of approximately 4% annually in real terms and now is estimated to absorb 12-14% of GNP. With growth in national income planned at only 3.4% in 1981, the prospect presents itself that the projected increase in defence spending might require compensating reductions in civilian investment or consumption (8). If current defence spending trends continue, this dilemma will make itself more apparent especially by 1985, when spending for defence is expected to account for some 15% of GNP. Nevertheless, there is recent evidence that in early 1981 the Soviet leadership may have ordered last minute changes to the 1981-85 Plan in order to accommodate an even greater reallocation of resources to defence. Even if the USSR eventually opts for a reduced rate of growth of defence expenditure, however, absolute levels of spending will still be very high, allowing for substantial modernization programmes throughout the Soviet forces.

(8) It should be noted, however, that if Soviet industrial production achieves its 1981 goal of expanding at a rate of over 4%, then the bulk of the defence spending increase, which consists largely of increased outlays for equipment, can come simply from increased industrial output.

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32. In Eastern Europe, although defence outlays account for a considerably lower portion of economic output, there is evidence that a similar problem is presenting itself of a conflict in priorities with growth in investment needs and civilian consumption. (In the GDR, for example, published defence spending was planned to rise from a level of 7.5% of national income in 1980 to 7.7% in 1981 (9).)

Soviet Economic Assistance to the Developing World

33. Economic aid to all the developing countries, i.e. including Soviet clients, represents a considerable - although still manageable - burden on the Soviet economy. Overall net disbursements amounted to \$4.9 bn in 1980 (about the same as in 1979), out of which \$4.7 bn went to Communist Developing Countries (CDCs: Cuba, Mongolia, Vietnam, Cambodia, Laos and North Korea). In 1980 Cuba alone accounted for about three-fifths of net disbursements (\$3,075 mn), but the cost of supporting Vietnam is increasing rapidly and may have been as much as \$1 bn in 1980, whilst aid to Mongolia remains high relative to the size of that country (at least \$445 mn in 1980).

34. From the viewpoint of penetration into countries where Marxist-Leninist regimes are not firmly established, economic aid has been playing a lesser role in recent years, and net aid disbursements to LDCs (10) in 1980 are estimated at \$231 mn, resulting from the differences between \$654 mn in gross deliveries and \$423 mn in repayments by LDCs on outstanding debts. In 1980 repayments would even have exceeded gross disbursements if not for \$276 mn delivered to Afghanistan (up from \$34 mn in 1979, before the Soviet invasion). It is doubtful whether such "aid", principally directed to restore and expand infrastructures of high military importance (mainly roads and bridges), can in fact be considered as economic aid at all. If a handful of staunch clients (Angola, Ethiopia, Mozambique, Afghanistan and South Yemen) is excluded, the counterflows of debt repayments and interests largely exceed gross aid deliveries and therefore there is a net transfer of resources from LDCs to the USSR.

(9) It should be noted that in the German Democratic Republic the published defence spending does not reflect all defence expenditures.

(10) LDCs = Less Developed Countries

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35. Such patterns are not surprising: for quality considerations the LDCs much prefer Western assistance (commodities and technology alike). The more so as Soviet aid is tied to projects and this situation is reflected by the low rate of drawing (less than 50% of Soviet aid commitments in the period 1954-1980 have actually been drawn). On the other hand, the low absolute level of aid to LDCs does not mean that the Soviets have never used or are unwilling to use aid as an instrument of penetration: it results from the consideration that other means, especially political and strategic support, are of greater importance. More specifically, military assistance takes on a paramount role in the Soviet continuing drive to secure footholds in the LDCs. The predominance of arms supplies as the main avenue of penetration is likely to persist well into the 1980s, given the relative inferiority of Soviet non-military commodities.

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TABLE 1
USSR & EASTERN EUROPE: SELECTED INDICATORS OF ECONOMIC GROWTH
(Percentage change over previous year)

USSR	1978	1979	1980	1981 6 mths
National Income (a)	5.1	2.5	3.8 ^(d)	...
Industrial Production	4.8	3.4	3.6	3.4
Ind. Labour Productivity (b)	3.0	2.0	2.6	2.6
Agricultural Output	2.7	-3.8	-2.0	...
Foreign Trade (c):				
Exports	7.3	18.9	17.0	...
Imports	14.8	9.6	17.4	...

	Bulgaria				Czechoslovakia			
	1978	1979	1980	1981 6 mths	1978	1979	1980	1981 6 mths
National Income (a)	5.6	6.5	5.7	...	4.1	2.7	3.0	...
Industrial Production	6.9	5.4	4.0	6.0	4.8	3.7	3.2	1.8
Ind. Labour Productivity (b)	6.3	6.2	2.6	4.1	2.9	2.5	1.3
Agricultural Output	4.3	6.0	-4.9	...	1.5	-3.9	6.0	...
Foreign Trade (c):								
Exports	10.4	15.3	16.3	13.5	9.2	10.3	14.3	9.8(h)
Imports	12.2	8.3	11.7	26.2	7.7	11.3	7.6	8.4(h)

	GDR				Hungary			
	1978	1979	1980	1981 6 mths	1978	1979	1980	1981 6 mths
National Income (a)	3.6	4.0	4.2	5.0	4.2	1.8	-0.8	...
Industrial Production	3.7	4.8	4.7	5.4	4.9	3.0	-1.7	2.0
Ind. Labour Productivity(b)	3.2	4.4	5.1	5.4	4.9	4.6	-1.1	4.2
Agricultural Output	1.4	2.0	0.2	...	2.0	-1.1	2.6	...
Foreign Trade(c):								
Exports	10.5	13.5	10.0(e)	12.0(e)	0.9	17.2	-0.4	6.2(h)
Imports	0.8	11.3	10.0(e)	12.0(e)	12.6	2.6	-2.9	3.7(h)

	Poland				Romania			
	1978	1979	1980	1981 6 mths	1978	1979	1980	1981 6 mths
National Income (a)	3.0	-2.0	-4.0	...	7.6	6.3	2.5	...
Industrial Production	4.9	2.8	-1.3(g)	-12.5(f)	9.0	8.2	6.5	...
Ind. Labour Productivity(b)	4.9	2.7	-1.0(g)	...	7.1	5.6	4.2	...
Agricultural Output	4.1	-1.4	-9.6	...	2.4	5.5	-5.0	...
Foreign Trade(c):								
Exports	15.1	15.2	4.4	-17.4	5.5	18.0	24.5	...
Imports	10.1	9.3	7.1	-7.0	16.5	20.1	21.8	...

(a) Produced national income, i.e. utilised national income plus losses and net exports;
(b) Gross production per employed person;
(c) At current prices and exchange rates, fob; Hungary's imports, cif;
(d) Utilized national income (consumption plus investment);
(e) GDR statistics refer only to turnover since 1980
(f) Production sold in socialised industry;
(g) Production sold per employee in socialised industry;
(h) Five months = not available

Sources: Economic Commission for Europe, Economic Survey of Europe in 1980, national yearbooks, and official Press releases.

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TABLE 2

USSR AND EASTERN EUROPE: RECENT TRENDS IN TRADE WITH THE
NON-COMMUNIST COUNTRIES AS A WHOLE
(MILLIONS OF \$)

	<u>1978</u>	<u>1979</u>	<u>1980</u>
USSR			
- Exports(1)	34,191	28,761	35,234
- Imports	20,300	25,160	32,261
- Balance	891	3,601	2,973
BULGARIA			
- Exports	1,566	2,276	3,063
- Imports	1,418	1,618	2,014
- Balance	148	658	1,049
CZECHOSLOVAKIA			
- Exports	3,104	3,651	4,526
- Imports	3,530	4,139	4,519
- Balance	- 426	- 488	7
GDR(2)			
- Exports	3,694	4,387	...
- Imports	4,788	6,043	...
- Balance	-1,094	-1,656	...
HUNGARY			
- Exports	2,475	3,360	...
- Imports	3,822	4,042	...
- Balance	-1,347	- 682	...
POLAND			
- Exports	5,446	6,414	7,965
- Imports	7,242	8,157	8,757
- Balance	-1,796	-1,743	- 792
ROMANIA			
- Exports	4,177	5,458	6,503(3)
- Imports	5,120	6,889	8,037(3)
- Balance	- 943	-1,431	-1,534(3)

- (1) Including residual trade with the developing countries
 (2) Estimates
 (3) Convertible currency trade

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ANNEX to
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		Net convertible currency debt (billions of \$) Estimates	Debt servicing (principal plus interest as a percentage of goods exported to non- Communist countries)
USSR	1972	0.6	17(1)
	1975	7.4	23(1)
	1978	11.2	31(1)
	1979	10.2	24(1)
	(1980)	(10)	-
BULGARIA	1972	0.9	36
	1975	2.3	33
	1978	3.7	46
	1979	3.7	38
	(1980)	(3.0)	-
CZECHOSLOVAKIA	1972	0.2	10
	1975	0.8	14
	1978	2.5	20
	1979	3.1	22
	(1980)	(3.0)	-
GDR	1972	1.2	18
	1975	3.5	25
	1978	7.5	49
	1979	8.4	54
	(1980)	(10.5)	-
HUNGARY	1972	1.1	14
	1975	2.2	19
	1978	6.5	36
	1979	7.3	37
	(1980)	(7.5)	-
POLAND	1972	1.1	15
	1975	7.4	30
	1978	17.0	79
	1979	20.0	92
	(1980)	(25.5)	-
ROMANIA	1972	1.2	27
	1975	2.4	23
	1978	5.0	20
	1979	6.7	22
	1980	9.2	
TOTAL	1972	6.3	
	1975	26.0	
	1978	53.4	
	1979	59.4	
	(1980)	(68.7)	

(1) Debt servicing as a percentage of convertible currency exports

() Preliminary estimates

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TABLE 4

POLISH EXPORTS AND IMPORTS TO AND FROM CMEA COUNTRIES

INDIVIDUAL COUNTRY SHARES
(In million zloties*)

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	1975				1978				1979				Export-Import Balance In zloties		
	Exports	%	Imports	%	Exports	%	Imports	%	Exports	%	Imports	%	1975	1978	1979
Bulgaria	893.6	2.6	615.5	1.5	965.4	2.2	1,024.3	2.0	994.0	2.0	1,008.5	1.9	+ 278.1	- 58.9	- 14.5
Czechoslovakia	2,741.6	8.0	2,448.8	5.9	3,302.4	7.4	3,169.2	6.2	3,619.0	7.2	3,166.6	5.8	+ 292.8	+133.2	+452.4
Romania	752.8	2.2	671.6	1.6	966.3	2.2	1,308.0	2.6	1,075.5	2.1	975.9	1.8	+ 81.2	-341.7	+ 99.6
G D R	3,151.3	9.2	3,130.5	7.5	3,684.0	8.2	4,029.8	7.9	3,639.6	7.3	4,176.6	7.7	+ 20.8	-345.8	-537.0
Hungary	1,021.0	3.0	880.6	2.1	1,585.4	3.5	1,436.7	2.8	1,557.0	3.1	1,526.6	2.8	+ 140.4	+148.7	+ 30.4
U S S R	10,776.3	31.5	10,556.8	25.3	15,138.6	33.9	15,227.1	29.9	17,745.5	35.4	16,984.0	31.3	+ 219.5	- 88.5	+761.5

Based on figures given in Rocznik Statystyczny 1980 pp 313-4

* Devisny zloty

One zloty equals US \$.33

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TABLE 5

INTRA-CMEA TRADEANNEX to
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	1975			1976			1977			1978			1979		
	Total	Exports	Imports												
Bulgaria	73.1	77.4	70.7	76.6	78.0	75.3	78.0	77.6	78.4	78.4	76.7	80.1	75.7	72.1	79.3
Hungary	66.1	68.5	64.0	54.3	56.5	52.2	53.4	56.5	50.9	55.8*	60.9*	51.7*	55.4*	57.6*	53.4*
G D R	66.2	69.3	63.5	63.9	67.6	60.8	67.9	70.6	65.6	70.0	-	-	68.4	-	-
Cuba	55.4	64.2	47.3	64.0	71.6	57.2	71.8	80.4	64.6	-	-	-	-	-	-
Mongolia	96.2	96.4	96.0	97.2	96.7	97.5	96.2	95.0	97.0	-	-	-	-	-	-
Poland	49.7	56.9	43.8	50.2	56.9	44.9	53.2	57.3	49.0	54.7	58.0	51.9	54.7	57.8	51.7
Romania	38.0	38.8	37.1	39.2	38.3	40.1	41.9	41.7	42.0	39.2	41.7	37.0	35.2	38.3	34.1
U S S R	51.8	55.6	48.3	50.8	53.3	48.3	52.5	52.5	52.5	55.7	55.5	55.8	51.9	51.2	52.6
Czechoslovakia	66.0	66.5	65.6	67.8	69.4	66.2	67.5	68.7	66.4	67.8	68.7	67.9	67.2	67.5	67.0

Sources

See CMEA Year book 1976 p. 341 All CMEA except Vietnam, including Cuba and Mongolia

See CMEA Year book 1977 p. 325

See CMEA Year book 1978 p. 325 *All Socialist countries

For 1978 and 1979 see Vneshnaya Trgovlia SSSR 1979 pp 8, 14

AC/127-WP/648, August 24, 1981, table 5.

Statichski Godishnik NRB 1980 p. 384 - Facts on Czechoslovak Foreign Trade 1980 pp 52, 54

Statistisches Jahrbuch DDR 1980, p 233, Rocznik Statystyczny 1980 p. 312, Statistical Pocketbook of Hungary, 1979 p.135, Statistical Pocketbook of Hungary 1980, p.135